

Kansas Racing and Gaming Commission



Don Brownlee
Executive Director

2015 Annual Report

Table of Contents

| | |
|-----------------------|---|
| Executive Summary | 1 |
| Commissioner Profiles | 2 |
| Historical Overview | 3 |
| Casino Regulation | 4 |
| Pari-mutuel Racing | 5 |

KRGC Key Programs and Operational Divisions

| | |
|---|----|
| Responsible Gambling Program | 6 |
| Voluntary Exclusion Program | 7 |
| Legal Division | 9 |
| Illegal Gambling Complaints | 10 |
| Security and Licensing Division | 11 |
| Information Technology and Electronic Security Division | 12 |
| Administration, Finance and Audit Division | 13 |
| Revenues and Expenditures | 14 |

Regulated Facilities

| | |
|-------------------------------------|----|
| Boot Hill Casino and Resort | 15 |
| Hollywood Casino at Kansas Speedway | 16 |
| Kansas Star Casino | 17 |

State Gaming Agency 18

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Executive Summary CY 2015

The Kansas Racing and Gaming Commission (KRGC) is the agency responsible for the regulation of expanded gaming and pari-mutuel wagering in Kansas. The mission of the KRGC is to protect the integrity of the gaming and racing industries through enforcement of Kansas laws and regulations. The KRGC is committed to preserving the public's trust and confidence in the Kansas gaming experience. The Kansas Expanded Lottery Act (KELA) and the Kansas Pari-mutuel Racing Act are the enabling legislation for expanded gaming and pari-mutuel wagering respectively. Currently, the KRGC's primary responsibilities are to ensure compliance with gaming laws and regulations, administer the responsible gambling Voluntary Exclusion Program, and assist in helping to protect the public from illegal gambling operations. The KRGC administers two programs: 1) the Expanded Gaming Regulation Program that regulates lottery gaming facility managers that operate state-owned games and the vendors of gaming equipment and supplies utilized by the lottery gaming facility managers; and 2) the Racing Operations Program that regulates the greyhound and horse racing industries, which is currently inactive. The Tribal Gaming Regulation Program that oversees the tribal casino industry in the state is administered solely by the State Gaming Agency, which reports separately.

The Expanded Gaming Regulation Program is administered to ensure that lottery and racetrack gaming facility managers and related vendors conduct state-owned gaming with the highest level of integrity by complying with the rules and regulations promulgated by the KRGC under KELA, as well as other applicable state and federal laws. Under KELA, the Kansas Lottery is authorized to own and operate casino-style games in four specific geographic zones, and to own and operate electronic gaming machines at pari-mutuel racetracks. The northeast gaming zone consists of Wyandotte County where the Hollywood Casino at the Kansas Speedway opened in February 2012; the south-central gaming zone consists of Sedgwick and Sumner counties where the Kansas Star Casino opened in December 2011; the southwest gaming zone consists of Ford County where the Boot Hill Casino and Resort opened in December 2009; and the southeast gaming zone consists of Crawford and Cherokee counties, which is currently available but where no potential lottery gaming facility manager has been approved.

The primary goals of the Racing Operation Program are to maintain the integrity of pari-mutuel wagering in Kansas and to protect the health, safety, and welfare of racing animals. Licensed racetrack activities in Kansas ceased operations in 2009. Since that time all pari-mutuel licenses have expired and no renewal applications have been filed. The KRGC is governed by a Commission which consists of five members appointed by the Governor and confirmed by the Senate for four-year terms. The KRGC meets monthly to address regulatory matters primarily related to casino-style gaming in Kansas. The members of the Commission consist of:



Brandon L. Jones (Chair) from Ottawa, is both the Anderson and Osage County Attorney. He was appointed to the Kansas Racing and Gaming Commission in May, 2015, by Governor Sam Brownback. A lifelong Kansan who was born and raised in Osage County, Mr. Jones graduated from Lyndon High School in 1993, earned a Bachelor of Arts in Political Science from the University of Kansas in May, 1997, and then attended the University of Kansas School of Law, graduating with a Juris Doctorate in May, 2000. He passed the Kansas bar exam and was admitted to both the Kansas state and federal bars in September, 2000. While in law school, Mr. Jones interned at the United States Attorney's Office in Topeka, Kansas and at the Johnson County District Attorney's Office in Olathe, Kansas. Since graduating, Mr. Jones has worked as an Assistant County Attorney in the Franklin County Attorney's Office in Ottawa, Kansas from May, 2000, through July, 2003, and as an Assistant District Attorney in the Douglas County District Attorney's Office in Lawrence, Kansas from August, 2003 through April, 2007. In April, 2007, he was appointed Osage County Attorney by the Osage County Republican Central Committee to fill an unexpired term and won election for Osage County Attorney in November of 2008. In November, 2012, Mr. Jones was re-elected as Osage County Attorney and was also elected Anderson County Attorney. He currently serves as County Attorney in both Osage and Anderson Counties. Mr. Jones has been a prosecutor for 15 years and has tried over 50 jury trials and countless bench trials, preliminary hearings, and other contested court hearings. He is an active member of the Kansas County & District Attorneys Association, the National District Attorneys Association, the 4th Judicial District Community Corrections Advisory Board, the Garfield Elementary School (Ottawa, KS) Site Council, and is a past member of the U.S.D. 290 – Ottawa Board of Education. He lives in Ottawa, Kansas with his two children, Sydney, 11, and Landon, 8.



Dennis McKinney (Vice Chairman) from Greensburg, Kansas, is a former State Treasurer and former State Representative to the Kansas House, is a farmer and stockman in Kiowa and Comanche counties. In May 1992, Mr. McKinney was appointed to the Kansas House of Representatives, District 116, in May 1992 and was re-elected for nine terms. The 116th District covers a large portion of south central Kansas. In the House, Dennis served as minority leader from January 2003 until December 2008. In November 2008, Governor Kathleen Sebelius appointed Mr. McKinney as Kansas State Treasurer, a position which he held until January 2011. Prior to serving in the Kansas Legislature, He served as a Kiowa County Commissioner from January 1989 through May 1992. Mr. McKinney was appointed to the Kansas Racing and Gaming Commission in March 2011 by Governor Sam Brownback. Dennis resides in Greensburg with his wife Jean. Jean and Dennis have two daughters: Kelly, an accountant in Ashland, Kansas and Lindy, a college student.



David Moses from Wichita, is General Counsel for Wichita State University. Mr. Moses is admitted to practice law in Kansas, U.S. District Court for the District of Kansas, the Tenth Circuit Court of Appeals and the U.S. Supreme Court. He was appointed to the Kansas Racing and Gaming Commission in November, 2012 by Governor Sam Brownback. Born and raised in Wichita, Mr. Moses graduated from Washburn University with a Bachelor of Business Degree in 1976, received his Juris Doctor degree from Washburn University School of Law in 1979 and was admitted to the Kansas Bar the same year. After graduation, he served as an Assistant District Attorney for the Sedgwick County District Attorney. In 1990, Mr. Moses left his position as a Chief Administrative Attorney for the District Attorney to be of counsel with Curfman, Harris, Rose & Weltz, becoming a partner with Curfman, Harris less than a year later. He left Curfman, Harris to become a shareholder with the Wichita law firm of Case, Moses Zimmerman & Martin, P.A. which had offices in Wichita and Kansas City. He later became managing member of Moses and Pate, LLC where his practice included federal, state and local criminal defense work and civil litigation in the areas of personal injury, education law, business disputes and employment. Mr. Moses has been active in local and state activities as a member of the City of Wichita Police & Fire Retirement Board, member of the Washburn University Board of Regents, Chairman of the Kansas Commission for Peace Officer Standards and Training, and instructor of Sports Law at Wichita State University. Mr. Moses is a member of the Wichita Bar Association, Kansas Bar Association, American Bar Association, and the American Association of Justice. He is married to Terri Moses and they have two adult sons and one daughter-in-law, all whom reside in Wichita.



Jan Kessinger (Secretary) is president of Henderson Kessinger Consulting, Inc., (HKC, Inc.) a management and sales consulting company based in Overland Park. Mr. Kessinger's consulting client list includes 35 state and provincial lotteries, and consumer products companies, both international and local. As a speaker, Mr. Kessinger has addressed major conventions in the United States, Canada, Europe and Central America. Prior to founding HKC in 1994, Mr. Kessinger was an associate publisher and sales director for Vance Publishing, a business-to-business publishing company in Overland Park. In 1984, he was founding publisher of ProNet, a leading edge online service for the fresh produce industry. Mr. Kessinger is an active volunteer in missions at the United Methodist Church of the Resurrection in Leawood and has participated in mission work in South Africa. He is also a Congregational Care Minister volunteer at the church. Mr. Kessinger holds an MBA from the Helzberg School of Management, Rockhurst University and did graduate work in business at the Graziadio School of Business and Management, Pepperdine University after graduating in journalism from the William Allen White School of Journalism, University of Kansas. Mr. Kessinger is married and has three daughters and five grandchildren.

Historical Overview

Expanded Gaming

In 2007, the Kansas Legislature passed the Kansas Expanded Lottery Act (KELA), establishing four commercial gaming zones in Kansas. The act also authorized the Kansas Lottery to negotiate with pari-mutuel facility operators for the placement of electronic gaming machines at racetracks in the gaming zones. The KRGC is responsible for regulating the operation of lottery and racetrack gaming facilities in Kansas under KELA.

The Lottery Gaming Facility Review Board (LGFRB) was created by KELA to review the applications forwarded from the Kansas Lottery to determine the "best possible contract" in the four gaming zones. Once the LGFRB awarded a contract to an operator, the KRGC conducted a background investigation on the selected operator to determine the eligibility of that operator to engage in gaming activities based upon the high standards established by KELA.

Between December 2007 and December 2010, the LGFRB held 39 days of public meetings and evaluated 13 facility management contract proposals for the four gaming zones established by KELA.

The LGFRB selected Butler National Service Corporation (BNSC), a wholly-owned subsidiary of Butler National Corporation, as the operator for the southwest gaming zone where BHCMC, LLC, a joint venture between BNSC and BHC Investment Company, L.C., operate the Boot Hill Casino and Resort in Dodge City, Kansas; Peninsula Gaming, LLC as the operator for the south-central gaming zone where Kansas Star Casino, LLC, a wholly owned entity of Peninsula Gaming, LLC, operates the Kansas Star Casino in Mulvane, Kansas; and Kansas Entertainment, LLC, a joint venture between the International Speedway Corporation and Penn National Gaming, Inc., as the operator in the northeast gaming zone where it operates the Hollywood Casino at the Kansas Speedway in Kansas City, Kansas. The LGFRB was disbanded in 2011.

Due to changes in KELA in January of 2015 the LGFRB was reconvened. Between January and June of 2015 six LGFRB public meetings were conducted. The LGRFB selected Kansas Crossing Casino, L.C., a private company made up of multiple shareholders consisting of Kansas Crossing Real Estate, L.C., Kansas Crossing Hotel, L.C. and JNB Gaming, LLC, as the operator in the southeast gaming zone where it will operate a casino in Pittsburg, Kansas.

Casino Regulation

KELA requires that the KRGC regulate state-owned and operated casino-style games at lottery and racetrack gaming facilities.

Boot Hill Casino and Resort in Dodge City, Kansas

In December 2009, the Boot Hill Casino & Resort began operations in Dodge City, Kansas. Boot Hill completed expansion activities in August 2012 and currently has 800 electronic gaming machines, 18 table games and 5 poker tables. The United Wireless Arena, a 6,000 seat arena and 10,000 sq. ft. convention center funded through local funds, opened in February 2011. The arena, although not owned or operated by Boot Hill, is located adjacent to the facility. A hotel that is also adjacent to the Boot Hill Casino facility is part of the lottery gaming enterprise and opened to the public March 15, 2012.

Kansas Star Casino in Mulvane, Kansas

The Kansas Star Casino in Mulvane began operations December 20, 2011 with limited hours in the arena casino while construction of the main casino facility continued. The arena casino began 24/7 operations in January 2012. In December 2012, Kansas Star opened its permanent facility and currently offers 1,825 electronic gaming machines, 45 table games and a poker room along with five restaurants. Kansas Star also opened a connecting hotel as of December 2014 the hotel has 300 rooms. In January of 2015 Kansas Star opened the convention center and hosts a variety of entertainment events.

Hollywood Casino at the Kansas Speedway, Kansas City, Kansas

The Hollywood Casino at the Kansas Speedway in Kansas City opened in February 2012. The facility currently offers 2,000 electronic gaming machines, 52 table games and a poker room along with five restaurants.

Kansas Crossing Casino in Pittsburg, Kansas

The Kansas Crossing Casino is currently under construction and scheduled to open in April of 2017. The facility will have 625 slot machines, 16 table games, a 123-room Hampton Inn and Suites and a 600 seat entertainment complex.

Pari-Mutuel Racing

In 1986, Kansas voters approved an amendment to the Kansas Constitution authorizing the Kansas Legislature to license, regulate, and tax pari-mutuel wagering. In 1987, the Kansas Legislature enacted the Kansas Pari-mutuel Racing Act. The provisions of this act apply to horse and greyhound racing. Racing conducted under the pari-mutuel system of wagering began in 1988 and continued until 2009, when the last county fair racing meet occurred at Anthony Downs. Since 2009 no legalized pari-mutuel wagering has occurred in Kansas.

In September 2008, the KRGC issued a notice of violation to each of the racetrack operators and non-profit organizations that they had failed to conduct the required number of live horse and/or greyhound races to maintain their respective licenses. Each of these notices required the licensee to cure the violation by a date certain in order to maintain their license or the license would be subject to revocation. In December 2008, the KRGC issued an Administrative Order extending the deadline 30 days after the Kansas legislative session adjournment sine die. The deadline was extended twice more in 2009 to expire 30 days following the final adjournment of the 2010 Kansas legislative session. Each extension by the KRGC was an effort to provide additional time for legislative changes making horse and dog racing more attractive to participants and encourage the continuation of pari-mutuel wagering. Legislative changes that were attempted failed to pass. In June 2010, the last of the extended deadlines to cure the failure to conduct the agreed upon number live horse and/or greyhound races expired and the licenses of all three racetracks and all three non-profit organizations were revoked.

KRGC Key Programs and Operational Divisions

The day-to-day operations of the agency are administered by an executive director and staff. Governor Brownback appointed Don Brownlee the Executive Director of the Kansas Racing and Gaming Commission in September 2015.

Mr. Brownlee was born and raised in the Wichita, KS area and has worked with the Kansas Racing and Gaming Commission for twelve years, where he was previously the Director of Security and has assisted with the closure of the pari-mutuel race tracks and the selection and opening of the three lottery owned casinos currently operating in Kansas.

Prior to joining the Kansas Racing and Gaming Commission, Mr. Brownlee was a production supervisor for the Coleman Company and spent twenty-nine years with the Kansas Highway Patrol, ending with the position of superintendent.

Responsible Gambling Program

The Responsible Gambling Program is one of the key programs administered by the KRGC. The primary purpose of the Responsible Gambling Program is to monitor compliance with

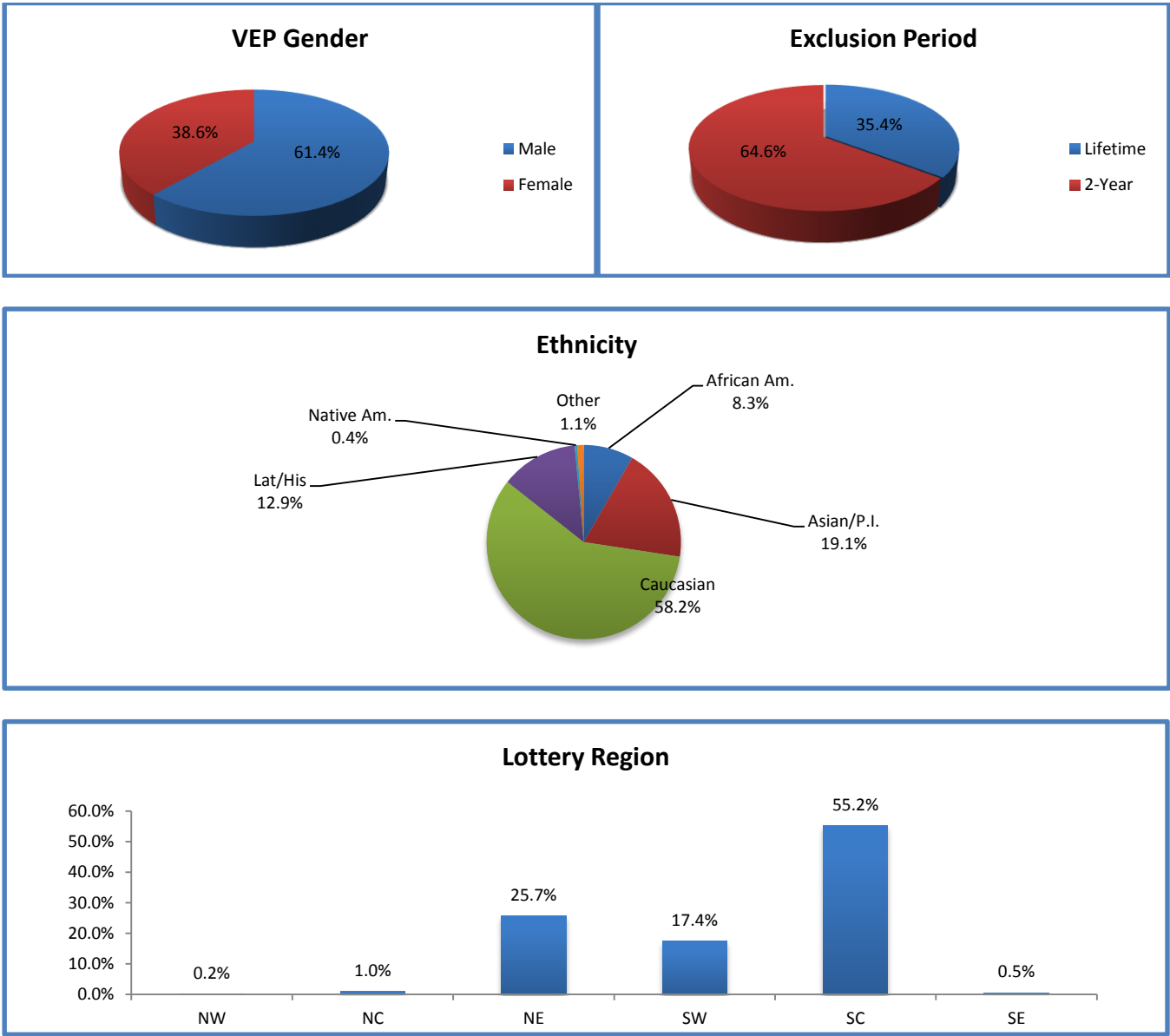
the responsible gambling plans for each of the lottery gaming facility managers. The responsible gambling plan for each facility manager is intended to ensure that the employees of the facility managers are properly trained and actually able to recognize the danger signs related to problem gambling behavior and take the appropriate action to help individuals obtain treatment. Boot Hill Casino and Resort, the Kansas Star Casino, and the Hollywood Casino all have responsible gambling plans that are approved by the KRGC. KRGC personnel monitor the responsible gambling training programs for casino employees to determine the effectiveness of that training. In addition, KRGC personnel review signage, brochures, advertisements and other promotional materials related to the dissemination of material to educate casino patrons about problem gambling and the treatment services available, and reviews all promotional material to ensure that the integrity of gaming in Kansas is maintained at the highest level.

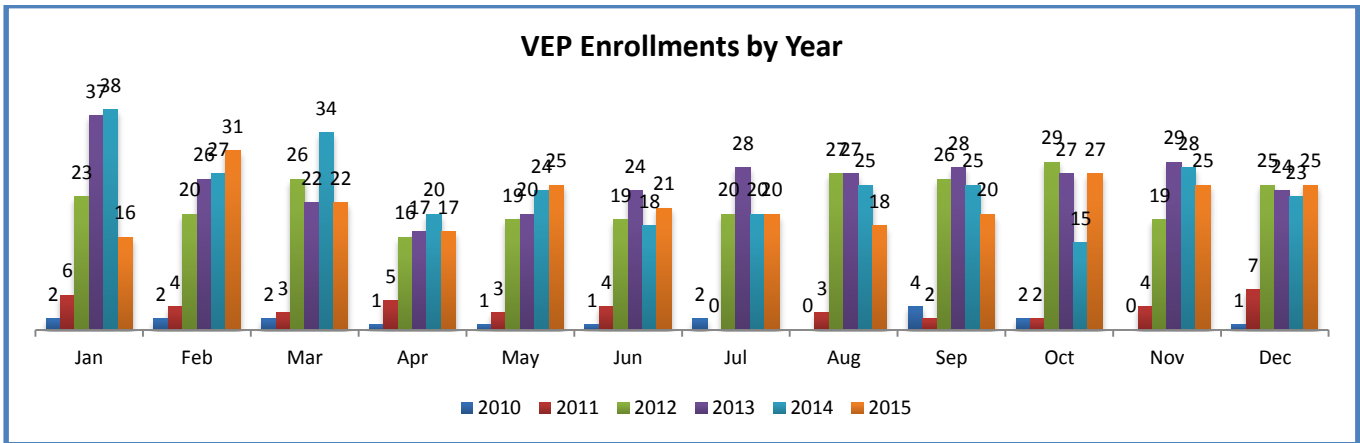
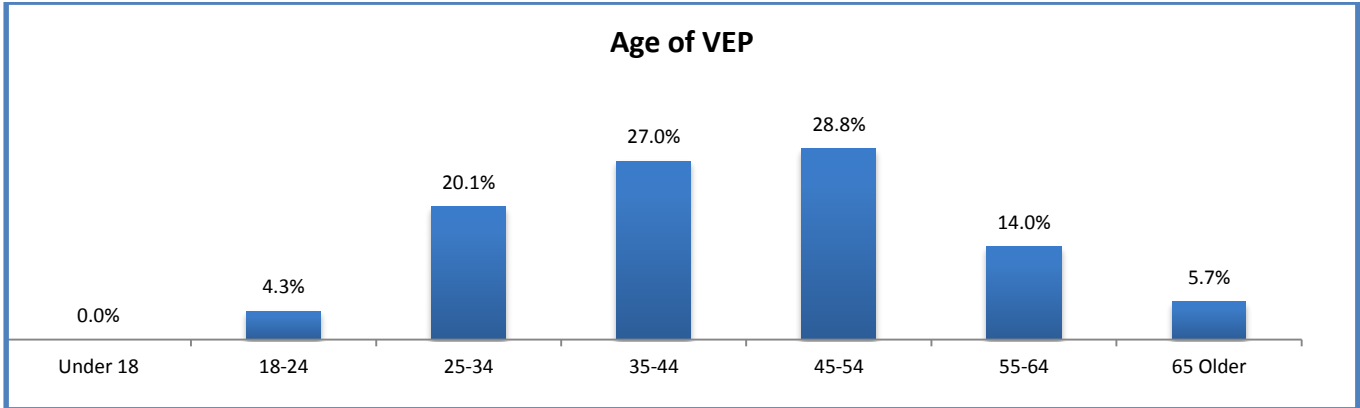
The KRGC administers the Voluntary Exclusion Program for problem gamblers. The Voluntary Exclusion Program provides individuals who need or want to refrain from gambling the opportunity to voluntarily exclude themselves from all KRGC regulated casinos. Participants may voluntarily exclude themselves for a period of two years or a lifetime. Participants who exclude themselves for a period of two years may come off the list after they send a written request to the KRGC and complete a problem gambling educational session with a problem gambling counselor. Participants who exclude themselves for a lifetime agree to never enter any KRGC regulated casino. If Voluntary Exclusion Program participants are found within a KRGC regulated casino, any winnings, gaming tickets, or gaming chips in their possession are forfeited and deposited back into the Problem Gambling and Addictions Grant Fund. Additionally, Voluntary Exclusion Program participants who are found within a KRGC regulated casino may be arrested for trespassing. The KRGC works with casino personnel to recognize and remove Voluntary Exclusion Program participants from the casinos as quickly as possible, but it is ultimately the responsibility of the Voluntary Exclusion Program participants to refrain from visiting KRGC regulated casinos. All casino personnel are trained to refer any casino patron who asks about the Voluntary Exclusion Program to a KRGC agent to receive more information or enroll in the program.

The KRGC participates in the Kansas Responsible Gambling Alliance. In addition to the KRGC, the Alliance is currently comprised of the Kansas Department of Aging and Disability Services, Kansas Coalition on Problem Gambling and Kansas Department of Corrections, a representative from each of the active gaming zones (i.e. Ford, Sumner and Wyandotte counties), and a representative from each of the lottery gaming facility managers. The Alliance was formed in 2008 to provide helpful information and support for Kansans with gambling problems. The Alliance maintains the Kansas problem gambling website, www.ksgamblinghelp.com, to provide resources for individuals with gambling problems and to raise awareness about problem gambling. In addition to the website, the Kansas Problem Gambling Helpline (800-522-4700) information is included in all promotional materials.

Voluntary Exclusion Program

The following graphs depict the data collection for CY 2015





Legal Division

The KRGC Legal Division includes a general counsel, legal assistant, and one staff attorney. Legal Division responsibilities can generally be divided into three areas: administrative, civil and criminal law. Administratively, KRGC attorneys create and amend regulations as needed, prepare agency action notices related to licensing decisions and regulatory violations, represent the agency at administrative hearings, research legal and agency issues, fulfill requests for information under the Kansas Open Records Act, and provide legal advice to commissioners and staff. KRGC's attorneys also represent the agency in civil litigation, contract negotiations, and asset forfeitures.

In 2013, the Kansas legislature reduced the capital investment and privilege fee requirements to operate a lottery gaming facility in the southeast gaming zone, comprised of Cherokee and Crawford counties. Legal Division staff devoted many hours in CY2015 to training, assisting and advising the new Lottery Gaming Facility Review Board members during the selection process, which lasted from January 2015 until the Review Board selected the Kansas Crossing Casino contract on June 23, 2015. Following the Commission's approval of the Review Board's decision, one unsuccessful applicant as well as the county where the candidate's proposed casino would have been built (Cherokee County), sought judicial review of the Review Board's and Commission's decisions in Shawnee County District Court. As part of that process, the agency's legal counsel (along with Lottery's and Kansas Crossing's counsel representing their interests) successfully defended the Commission and Review Board in a petition for injunctive relieve and application for a temporary restraining order to prevent the state and Kansas Crossing from proceeding under the contract. Legal counsel then worked with the Attorney General's retained counsel as they defended the Commission and Review Board against a Petition for Judicial Review, which was decided in the State's favor in early 2016 and is now on appeal.

In addition to casino gaming issues, attorneys continue to address horse and greyhound pari-mutuel racing-related inquiries, issues, and proposed legislation. The Legal Division administers the Kansas-bred program for horses that has continued at the request of the racehorse-breeding community, despite the absence of any licensed horse racing facilities in Kansas.

KRGC employs a staff of law enforcement agents and investigators located both in Topeka, Kansas, and at the three casinos in Dodge City, Mulvane and Kansas City. KRGC's attorneys advise the agents on licensing matters, regulatory issues and criminal matters and activities that arise at casinos, including theft, criminal trespass, disorderly conduct, prostitution, underage gambling and drinking, and unlawful wagering. Legal staff processes legal agreements with casino patrons, known as VEPs, who decide to voluntarily exclude themselves from state-operated casinos by participating in the state's Voluntary Exclusion Program. In addition, Legal staff represents the agency in meetings and training events involving responsible gambling and the VEP program, and issues summary orders whenever

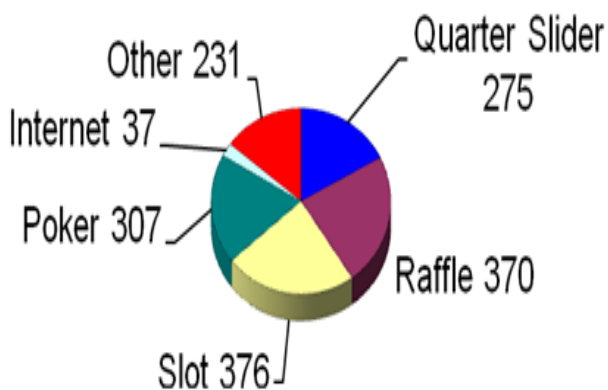
gambling winnings are confiscated from VEPs who are discovered gambling at a state-operated casino in violation of their VEP agreement.

The Legal Division also administers the Illegal Gambling Program. Beginning in 2007 with the passage of KELA, the KRGC became the primary coordinator for state-level illegal gambling complaints. Since that time, the KRGC has received 1,596 documented (phone, letters and email) illegal gambling complaints and inquiries from the public through year end 2015, 76 of which occurred during CY2015, as well as many more inquiries from law enforcement agencies, government attorneys, defense attorneys, and media outlets throughout the state wanting more information on gambling laws and related legislative bills. KRGC maintains a website with an illegal gambling “frequently asked questions” (FAQ) page, and attorneys update all legal content on that page and other web pages on the site. During CY2015, there was a total of 2,356 unique page views of the Illegal Gambling FAQ page. Complaints from the public generally concern illegal slot machines, quarter sliders and other gambling devices at bars, restaurants and convenience stores, illegal poker games and tournaments, illegal horse racing, internet gambling and various types of illegal lotteries.

Following is a breakdown of phone call and email inquiries received from the public in CY2015:

Illegal Gambling Complaints

(Received July 2007 - December 2015)



The “Other” category of illegal gambling includes lottery variations and horse racing conducted by both for-profit and illegal gambling enterprises. The above chart does not reflect calls and activity related to the following:

- reports made to KRGC agents by other law enforcement officers around the state;
- discussions with local law enforcement and district and county attorneys regarding legal issues related to illegal gambling and the services that KRGC can provide;
- time spent by agents and legal counsel assisting in active local investigations and prosecutions;
- time spent pursuing seizures and forfeitures of illegal gambling devices; or
- inquiries from the public that are answered through access to KRGC’s Illegal Gambling Frequently Asked Questions (FAQs) web page, which can be found here: <http://www.krgc.ks.gov/index.php/racing-gaming-law/illegal-gambling/faq-s-2> .

KRGC does not have legal authority to prosecute illegal gambling crimes. Thus, KRGC attorneys deal with illegal gambling devices through civil asset seizure and forfeiture proceedings and by coordinating efforts with local law enforcement and city, county and district attorneys throughout the State who want to prosecute gambling crimes but need assistance with gambling device forensics and legal advice.

Security and Licensing Division

Most of the Security and Licensing Division's personnel are vested with the power and authority of law enforcement officers in the execution of the duties performed for the KRGC under the provisions of KELA and the Pari-mutuel Racing Act. Currently, the division's goals are:

- to ensure the integrity of gaming in Kansas;
- to ensure gaming sites are a safe entertainment venue for patrons and employees;
- to be proactive and responsive to gaming laws and regulations; and
- to protect the interests of the public and the State as they relate to gaming.

Security and Licensing personnel work toward these goals by monitoring activities at the lottery gaming facilities, and investigating violations of the law and KRGC regulations. They serve as on-site regulatory staff for the KRGC acting as support to lottery gaming facility managers' security personnel and as a liaison between lottery gaming facility personnel and local law enforcement authorities.

The Security and Licensing Division conducts background investigations of lottery gaming facility management companies and their employees, lottery gaming facility suppliers and vendors and certain of their employees, as well as KRGC employees. Background investigations are conducted to protect the public interest by ensuring that only businesses and individuals exhibiting honesty and good character are eligible to engage in gaming operations in Kansas.

| BACKGROUND INVESTIGATIONS | CY 2014 | CY 2015 | LICENSES | CY 2014 | CY 2015 |
|-------------------------------|---------|---------|--|---------|---------|
| Backgrounds Completed | 1927 | 2239 | Gaming Licenses Issued | | |
| Backgrounds in Process | | | Corporations | 45 | 44 |
| Corporations | 29 | 27 | Corporate Employees | 666 | 699 |
| Corporate Employees | 216 | 220 | Boot Hill Employee Licenses Issued | | |
| Boot Hill Casino | 18 | 26 | Commission Approved | 181 | 179 |
| Hollywood Casino | 89 | 86 | Denied | 1 | 0 |
| Kansas Star Casino | 112 | 245 | Temporary | 72 | 55 |
| | | | Hollywood Casino Employee Licenses Issued | | |
| | | | Commission Approved | 392 | 683 |
| | | | Denied | 15 | 8 |
| | | | Temporary | 303 | 251 |
| | | | Kansas Star Casino Employee Licenses Issued | | |
| | | | Commission Approved | 620 | 622 |
| | | | Denied | 7 | 4 |
| | | | Temporary | 370 | 395 |

Information Technology and Electronic Security Division

The Information Technology and Electronic Security (ITES) Division provides IT support for all KRGC locations, electronic certification of electronic gaming machines (EGMs) and information system security audits.

In 2015, the division continued the improvement of the KRGC's gaming regulatory system at the Kansas Star Casino and the Hollywood Casino in addition to providing on-going maintenance of the system at the Boot Hill Casino. The system is a comprehensive regulatory system that allows:

- processing of gaming licenses and ID card issuance;
- electronic fingerprint processing;
- electronic document storage and management; and
- electronic incident reporting and security logs.

In addition, the division is responsible for maintaining the IRIS system, which is the inventory tracking system for EGMs and EGM software located at the three lottery gaming facilities. This system was also upgraded and data entered for Hollywood. This system is used by the KRGC to provide accurate, real-time tracking of all EGMs, EGM components and any associated issues.

IRIS has limitations and was in the process of an upgrade. The upgrade was cancelled. The state entered into a contract with Gaming Laboratories International for the use of their GLiCloud. This is a cloud based system that GLI purports will complete all the functions of the upgraded IRIS system. The system presently is only an inventory system, but Electronic Security is working with the GLI Information Technology Staff to upgrade the system to complete the tasks needed in today's gaming regulatory tasks. This includes monitoring inspection activity, approving projects, approving shipments, and keeping the casinos informed on the current status of software.

Electronic Security started the year with new rules on the 87% average payout requirement. Previously machines that were on the floor over 180 days were not allowed to be converted, or removed until the unit conducted a math analysis on the life of the machine to ensure it had an average payout of 87%. If the machine was below that amount the change was not allowed in compliance with KSA 74-8749 (a.) and not allowed to be conducted until it had obtained a higher average return to player.

The new policy passed by the commission changed the grace period to 270 days, starting on the day an EGM is placed on the gaming floor, to remove underperforming EGMs that have not yet reached an actual average payout of 87 percent. After this time, operators may not permanently remove an EGM from the gaming floor unless the EGM has reached an actual average payout of 87 percent. An exception may be made to the 87 percent minimum payout if the casino operator can demonstrate to the KRGC that a machine is consistently underperforming to such an extent that it is in the best interest of both the casino and the state to permanently remove the EGM from the gaming floor before an actual average of 87 percent payout is achieved.

This policy recognizes the statutory requirement that an EGM "pay out an average of not less than 87 percent of the amount wagered over the life of the machine" (K.S.A. 74-8749(a)(1)) the policy takes into account the reality that the life of some machines must end prematurely as a result of unacceptable performance. The Commission believes the

intent of the statutory scheme is to provide casino patrons with a fair payout percentage on each machine while still ensuring that revenue is maximized both for the operators and the State of Kansas. This policy upholds that intent by allowing operators to request removal of EGMs that do not gain patron popularity in the first nine months of play or that experience a steady decline in popularity over time as determined by the operators and demonstrated to the KRGC.

To demonstrate that a machine is consistently underperforming to an extent that it is in the best interest of the casino and the state to permanently remove from the gaming floor, an EGM that is below an actual 87 percent payout, a casino operator must show the following:

1. The average win per unit day (WPUD) of the EGM over the recent 90 day period only achieves 75% or less of the average WPUD for the gaming floor. (The WPUD decline must occur over a period of time and not just from one day to the next.)
2. The EGM has never used an illegal payable.
3. The operator can demonstrate it made efforts to increase play of the machine, such efforts may include but are not limited to: choosing a payable with a higher payout percentage; moving the EGM to a better location on the floor, or increased signage.

EGM removal approval or denial is made by KRGC within seven business days of receipt of the removal request. Factors to be considered before EGMs are approved for removal include length of time on the gaming floor, number of handle pulls, performance of similar game types (same title/theme and denomination), and prior actions taken to increase play of the game.

| ELECTRONIC SECURITY | CY 2014 | CY 2015 |
|--|---------|---------|
| EGM Disputes Investigated | 2 | 1 |
| Machine Software Inspections | 6,706 | 2,956 |
| EGM Hardware/Software Components Tested & Approved | 1,424 | 1,908 |
| EGM Hardware/Software Components Tested & Revoked | - | 200 |
| EGM Hardware/Software Components Tested & Rejected | - | 31 |
| Table Games Tested and Approved | 2 | 2 |

Administration, Finance and Audit Division

The Administration, Finance and Audit Division manages the KRGC's audit program for the lottery gaming facility managers and provides general administrative and finance support for the KRGC. The audit program ensures that lottery gaming facility managers develop and implement KRGC approved internal control plans for the protection of state-owned assets and the public. The audit staff reviews all internal control amendments and recommends for Commission approval amendments that are consistent with required levels of protection while allowing for improved operations or accommodating changing conditions. In addition, audit staff performs quarterly reviews of internal audit operations of, and monthly reviews of financial and other reports submitted to the KRGC by lottery gaming facility managers.

| AUDIT | CY 2014 | CY 2015 |
|---|---------|---------|
| Internal Control Plans Approved | 0 | 0 |
| Internal Control Plan Amendments/Waivers Reviewed | 71 | 98 |
| Internal Control Plan Amendments/Waivers Approved | 59 | 82 |
| Investigations of Audit Variances | 0 | 0 |
| Internal Control Violations Investigated | 0 | 0 |
| Casino Internal Audit Reports Reviewed | 101 | 101 |
| Casino Audits, On-Site | 9 | 4 |
| Casino Financial and Statistical Reports Reviewed | 550 | 227 |
| Revenue Analysis Reports | 36 | 12 |

The division maintains the KRGC's accounting, purchasing, and budgeting functions. In 2011, the KRGC repaid the principal and interest of the \$5.0 million Pooled Money Investment Board (PMIB) loan provided to the KRGC in fiscal years 2007 and 2008. The loan was used by the KRGC to fund start-up and overhead expenditures related to lottery and racetrack gaming facilities until the number of lottery and/or racetrack gaming facilities was determined and the lottery and/or racetrack gaming facility manager for each gaming zone was selected. Following the selection of a lottery gaming facility manager for each of the southwest, south-central and northeast gaming zones the KRGC billed the selected lottery gaming facility managers for the principle and interest costs of the loan. The final payment from the lottery gaming facility managers was received, and the last loan payment was made to the PMIB in December 2011.

A summary of actual expenditures for the past two calendar years (CY) can be found on the following page.

Revenue and Expenditure

| REVENUES | | CY 2014 | CY 2015 |
|---------------------------|-----------|------------------|---------------------|
| RACING | | | |
| Pari-mutuel Tax | \$ | - | \$ - |
| Admissions Tax | | - | - |
| Unclaimed Winning Tickets | | - | - |
| Breakage | | - | - |
| License Fees & Fines | | 743 | 807 |
| Operating Reimbursements | | - | - |
| Transfers | | - | - |
| Miscellaneous | | 405 | 150 |
| Subtotal – Revenues | | 1,148 | 957 |
| GAMING | | | |
| Review Board Charges | \$ | - | \$ 939,000 |
| Background Reimbursements | | 128,641 | 298,842 |
| Operations and Start-up | | 4,461,056 | 4,578,779 |
| Illegal Gambling | | - | 8,131 |
| Miscellaneous | | - | 628 |
| Deposits/Refunds | | - | 145 |
| Subtotal – Revenues | | 4,589,697 | 5,825,525 |
| TOTAL REVENUES | \$ | 4,590,845 | \$ 5,826,482 |

| EXPENDITURES | | CY 2014 | CY 2015 |
|---|-----------|------------------|---------------------|
| RACING | | | |
| Grants for Fair Meets | \$ | - | \$ - |
| Racing Operations | | - | - |
| Breed Supplements | | - | - |
| Transfers/Miscellaneous | | 2,823 | 3,074 |
| Subtotal – Expenditures | | 2,823 | 3,074 |
| GAMING | | | |
| Central Office | \$ | 2,039,850 | \$ 2,034,804 |
| PMIB Loan repayment, principle and interest | | - | - |
| Review Board | | - | 711,118 |
| Boot Hill | | 690,446 | 749,988 |
| Wyandotte | | 1,158,787 | 1,127,872 |
| Sumner | | 1,084,130 | 1,089,966 |
| Crawford | | - | 1500 |
| Subtotal – Expenditures | | 4,973,213 | 5,715,248 |
| TOTAL EXPENDITURES | \$ | 4,976,036 | \$ 5,718,322 |

| REVENUES AND EXPENDITURES | 2014 | 2015 |
|---------------------------|--------------|--------------|
| TOTAL REVENUES | \$ 4,590,845 | \$ 5,826,482 |
| TOTAL EXPENDITURES | \$ 4,976,036 | \$ 5,718,322 |

Boot Hill Casino and Resort

4000 West Comanche Street
Dodge City, Kansas 66111

(877) 906-0777

www.boothillcasino.com



Facility Information

Opened:

December 5, 2009

Gaming Floor:

742 Electronic Gaming Devices

18 Table Games

5 Poker Tables

Amenities:

Restaurant

Snack Bar

Hotel

Total Est. Employment:

Over 300 Full-time and part-time

Gaming Revenue

| | CY 2014 | CY 2015 |
|------------------------------|------------|------------|
| Total Gaming Revenue | 40,296,466 | 39,654,193 |
| Distribution to Governments: | | |
| State (22%) | 8,865,222 | 8,723,922 |
| Locals (3%) | 1,208,894 | 1,189,626 |
| Problem Gambling Fund (2%) | 805,929 | 793,084 |

Hollywood Casino at Kansas Speedway

777 Hollywood Casino Blvd.
Kansas City, Kansas 66111
www.hollywoodcasinokansas.com



Facility Information

Opened:

February 3, 2012

Gaming Floor (Phase 1):

2,000 Electronic Gaming Devices

52 Table Games

12 Poker Tables

Amenities (Phase 1):

Steakhouse, Sports Bar, Buffet,

Cafes

Parking Garage

Total Est. Employment (Phase 1):

Over 1,000 Full-time and part-time

Gaming Revenue

| | CY 2014 | CY 2015 |
|------------------------------|-------------|-------------|
| Total Gaming Revenue | 134,942,138 | 144,903,135 |
| Distribution to Governments: | | |
| State (22%) | 29,687,270 | 31,878,690 |
| Locals (3%) | 4,048,264 | 4,347,094 |
| Problem Gambling Fund (2%) | 2,698,843 | 2,898,063 |

Kansas Star Casino

I-35 @ exit 33
Mulvane, Kansas 67110
www.kansasstarcasino.com



Facility Information

Opened:
December 20, 2011

Gaming Floor (Phase 1b):
1,852 Electronic Gaming Devices
45 Table Games
10 Poker Tables

Amenities (Phase 1b):
Steakhouse, Sports Bar, Buffet,
Snack Bar
Hotel

Total Est. Employment:
Over 880 Full-time and Part-time

Gaming Revenue

| | CY 2014 | CY 2015 |
|-------------------------------------|-------------|-------------|
| Total Gaming Revenue | 178,308,094 | 183,225,966 |
| Distribution to Governments: | | |
| State (22%) | 39,227,781 | 40,309,712 |
| Marginal State (2% - tier two rate) | - | 64,519 |
| Locals (3%) | 5,349,243 | 5,496,779 |
| Problem Gambling Fund (2%) | 3,566,162 | 3,664,519 |

State Gaming Agency

The State Gaming Agency is attached to the Kansas Racing and Gaming Commission. The budget of the State Gaming Agency, the number and qualifications of employees of the State Gaming Agency, and expenditures by the State Gaming Agency for expenses of dispute resolution pursuant to a tribal-state gaming compact shall be subject to approval by the Kansas Racing and Gaming Commission. All other management functions of the State Gaming Agency are administered by the executive director, independent of the Kansas Racing and Gaming Commission. The State Gaming Agency's mission is to uphold the integrity of Indian gaming operations in Kansas by enforcing the tribal-state compacts and the Tribal Gaming Oversight Act. Four tribes continue to operate casinos in Kansas pursuant to tribal-state gaming compacts, and annual assessments from those tribes finance the agency's operations. The agency performs background investigations necessary prior to licensing for casino employees, management contractors, manufacturers and distributors for each tribal casino. In addition, the agency conducts inspections and monitors activity for compliance with not only the tribal-state gaming compacts but also applicable state and federal laws.

| PERFORMANCE MEASURES | FY 2015 |
|---|---------|
| Individual employee background investigations | 460 |
| Manufacturer / distributor background investigations | 27 |
| Criminal investigations | 1 |
| Compact compliance investigations | 4 |
| Compliance inspections conducted at gaming facilities | 833 |
| Individual EGD (electronic gaming device) inspections | 405 |

Class III Tribal Gaming Facilities in Kansas

| GAMING FACILITY | LOCATION (Closest City) | OPERATING TRIBE/NATION |
|------------------------------|----------------------------|---|
| Casino White Cloud | White Cloud | Iowa Tribe of Kansas and Nebraska |
| Prairie Band Casino & Resort | Mayetta | Prairie Band Potawatomi Nation in Kansas |
| Golden Eagle Casino | Horton | Kickapoo Tribe of Indians of the Kickapoo Reservation in Kansas |
| Sac & Fox Casino | Powhattan | Sac & Fox Nation of Missouri in Kansas and Nebraska |



Kansas Racing and Gaming Commission

700 SW Harrison, Suite 500
Topeka, KS 66603-3754
785.296.5800

www.krgc.ks.gov

Gambling problem?

Getting Help is your **Best Bet.**

800.522.4700 ksgamblinghelp.com